

BlueMeme (TYO: 4069)

Seemingly weak 1Q results but steady progress towards the medium-term management plan.

◇ FY3/2025 1Q financial highlights

BlueMeme (hereafter referred to as the Company) announced on 14 August 2024 its financial results for 1Q FY3/2025, with net sales of 510 million yen (-15% YoY), operating loss of 40 million yen, ordinary loss of 40 million yen and net loss attributable to owner of parent 40 million yen. Note that all of these profits were surpluses in the same period of the previous year. The order backlog at the end of the period, a KPI, was 490 million yen (-7% YoY), and pro forma EBITDA was 10 million yen (-86% YoY), both of which were severe figures.

The current financial year is a period of upfront investments and costs, including the development of Digital Labor, which is key to future growth, and in the quarter under review, personnel-related costs and business development-related costs were spent as planned. In addition to this, the decline in sales has resulted in lower profits.

The following are the reasons for the decline in sales. First, there was a rush demand in the previous year following the revision (price increase) of the Outsystems' license price, which has now been reversed. Second, the contribution to sales has been pushed back due to the longer lead time required to win orders due to more extensive business negotiations.

Despite these challenging figures, there seems to be little reason to believe that latent demand for the low-code agile methods by the Company is diminishing or that competition is becoming more challenging. The increase in the size of business negotiations mentioned earlier can be seen as a reflection of positive expectations for the Company's services.

◇ Started implementing Digital Labor on actual projects

According to the Company's release on 13 August 2024, Digital Labor has been implemented in an actual project and demonstrated a significant reduction in development time. Although details are unavailable, it indicates that a reasonable level of automatic generation is becoming possible commercially in low-code development, and the development of Digital Labor is progressing well.

◇ Full-year forecasts

The Company has not disclosed earnings forecasts for 2Q. Full-year forecasts remain unchanged, with net sales of 3.1 billion (+23% YoY), operating profit of 250 million yen (-1% YoY), ordinary profit of 250 million yen (-1% YoY) and net profit attributable to owners of parent of 200 million yen (+14% YoY). The Company has also maintained its forecast of no dividend for the full year.

◇ Share price trends and future highlights

The Company's share price had been flat at around 1,200 yen since May 2024, but in August, the share price fell to 855 yen as the overall stock market plummeted. The 1Q results announcement itself did not significantly impact the share price, as the Company's share price subsequently recovered in line with the market recovery. However, the recent share price has yet to return to the 1,200 yen level, which it had been until July and is now hovering around the 1,000 yen level.

A share buyback of up to 100,000 shares, with a maximum value of 100 million yen, was also decided on 20 August 2024. However, the more essential points that will move the share price are as follows.

1Q results update

Information Technology

As of 30 September, 2024

Share price (9/27)	1,080 Yen
52weeks high/low	¥855/1,917
Avg Vol (3 month)	3.9 thou shrs
Market Cap	¥3.8 bn
Enterprise Value	¥1.6 Bn
PER (25/3 CE)	18.5 X
PBR (24/3 act)	1.5 X
Dividend Yield (25/3 CE)	- %
ROE (24/3 act)	6.6 %
Operating margin (24/3 act)	10.1 %
Beta (5Y Monthly)	0.2
Shares Outstanding	3.58 mn shrs
Listed market	TSE Growth

Share price



Points of interest

First, will the progress ratios against the full-year plan (especially orders and order backlog) improve from 2Q onwards?
Second, progress in the development of Digital Labor and the accumulation of results from actual projects.

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First, will the progress ratios against the full-year plan improve from 2Q onwards? Orders are of particular interest, and if more extensive business negotiations are concluded, this will lead to a significant increase in orders and order backlog, leading to an increase in pro forma EBITDA.

Second, progress in the development of Digital Labor. The current development phase is the stage of automating low-code engineer-led development, and the system's effectiveness is expected to be verified in actual projects. Furthermore, the development of Digital Labor is scheduled to move on to business architects, who are further upstream in the system development process, and the progress and results of this development will be closely watched.

Company profile

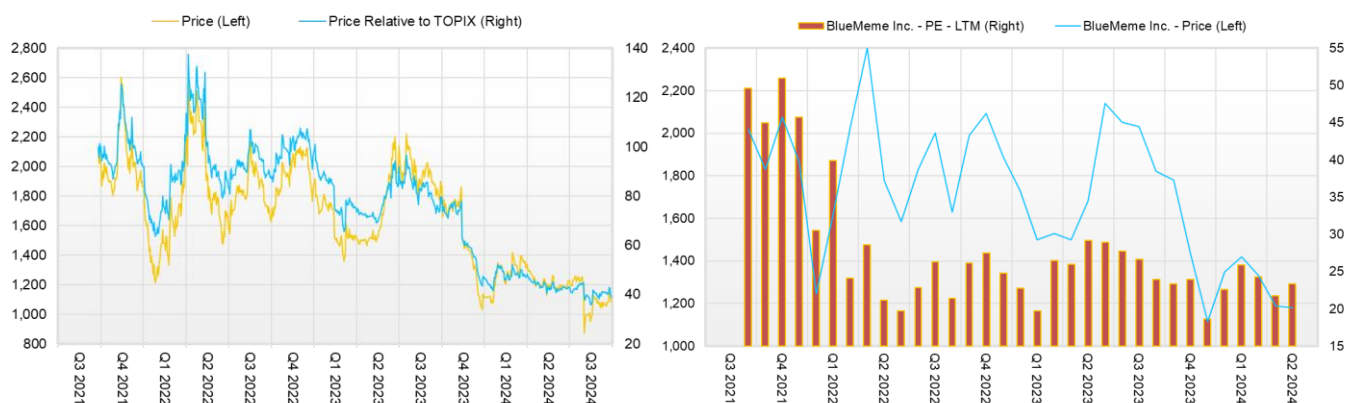
BlueMeme Inc. (hereafter referred to as the Company) is a pioneer in Japan in the development of 'low-code agile methods' and was the first company in Japan to introduce OutSystems' low-code technology after its establishment in 2006. It has been providing system development services based on this. The Company is actively investing in promoting its unique automation concept called 'Digital Labor'. This initiative is expected to overcome the issue of the shortage and uneven distribution of IT personnel in Japan and accelerate DX initiatives not only in large companies but also in small and medium-sized enterprises (SMEs) while at the same time improving the Company's productivity. As a result, the Company expects its revenues to grow dramatically when the development of Digital Labor technology moves into the payback phase.

Key financial data

Unit: million yen	2019/3	2020/3	2021/3	2023/3	2024/3	2025/3 CE
Sales	1,800	2,102	1,942	2,289	2,507	3,100
EBIT (Operating Income)	32	175	375	358	256	250
Pretax Income	31	174	355	343	252	250
Net Profit Attributable to Owner of Parent	11	130	259	260	175	200
Cash & Short-Term Investments	584	645	2,356	2,225	2,229	
Total assets	1,273	1,395	3,351	3,556	3,734	
Total Debt	5	5	5	5	5	
Net Debt	-2,223	-2,223	-2,223	-2,223	-2,223	
Total liabilities	914	871	953	896	1,125	
Total Shareholders' Equity	2,609	2,609	2,609	2,609	2,609	
Net Operating Cash Flow	175	183	338	95	252	
Capital Expenditure	69	69	69	69	69	
Net Investing Cash Flow	-13	-21	-10	-47	-107	
Net Financing Cash Flow	60	-100	1,382	-179	-142	
Free Cash Flow	184	184	184	184	184	
ROA (%)	0.92	9.76	10.92	7.52	4.80	
ROE (%)	2.99	29.51	17.73	10.27	6.64	
EPS (Yen)	3.3	40.7	80.3	74.0	50.5	
BPS (Yen)	112.1	163.7	701.4	750.5	762.9	
Dividend per Share (Yen)	0.00	0.00	0.00	0.00	0.00	
Shares Outstanding (Million shares)	3.20	3.20	3.41	3.52	3.56	

Source: Omega Investment from company data, rounded to the nearest whole number.

Share price



Quarterly topics

The industry position the Company aims to achieve

Business Overview bluememe

Positioning in the IT Industry

- Using agile and low-code methods to develop high-quality systems even among high-risk large-scale systems.
- Cutting system development and operation costs through cost-optimized structural designs based on business analysis.

	System scale	Development method	Business analysis Business design	Cost-optimized structural design	System requirement definitions	Design and production testing	Operation, maintenance
General consultants	Med-large	Waterfall	Service provision	✗	Service provision	Service provision	✗
Major system integrators			Service provision	✗			Service provision
bluememe	Small-med	Low-code, agile methods	Providing one-stop services related to system development				Support for bringing in house
System development firms dispatching engineers		Waterfall and traditional agile methods	✗	✗	Service provision		

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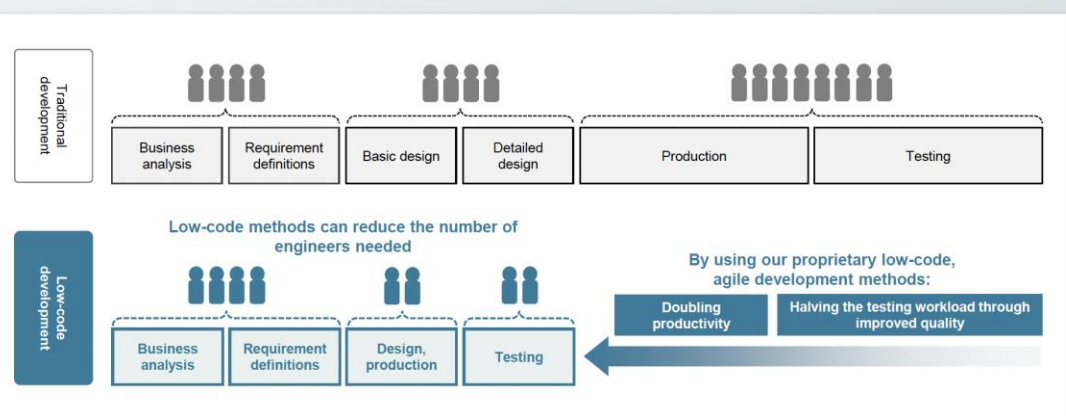
Source: Company materials

The value the Company provides to its customers: low-cost, agile system development and operation by customer in-house teams

Business Features and Advantages bluememe

BlueMeme's Cost Performance: Keeping Down Development Costs through Maximum Use of Low-Code Methods

- BlueMeme can more than double development productivity by using its proprietary low-code, agile development methods.
- Low-code methods greatly reduce the number of engineers needed in system development by automating programming.



Traditional development: 6 phases (Business analysis, Requirement definitions, Basic design, Detailed design, Production, Testing) requiring 18 engineers.

Low-code development: 4 phases (Business analysis, Requirement definitions, Design, production, Testing) requiring 6 engineers.

By using our proprietary low-code, agile development methods:

- Doubling productivity
- Halving the testing workload through improved quality

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Source: Company materials

Quarterly topics

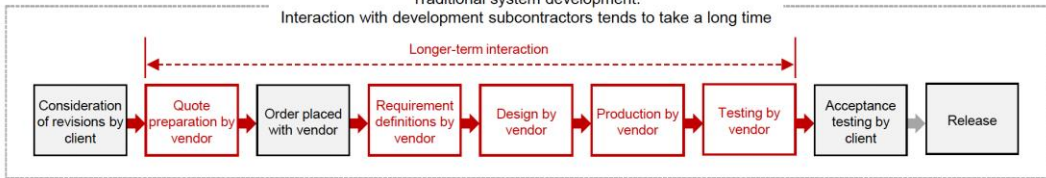
The value the Company provides to its customers: low-cost, agile system development and operation by customer in-house teams (contd.)

Business Features and Advantages bluememe


BlueMeme's Adaptability: Prompt Service through Development of In-house Development Teams at Clients

- Swift bug fixes and feature additions require the forming of in-house teams able to conduct system development at the client.
- BlueMeme's development services support development of in-house teams by providing business-system development expertise.

Traditional system development:
Interaction with development subcontractors tends to take a long time



Building an in-house team using BlueMeme's development services
Enables swift handling with no need for troublesome contractual processing



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Source: Company materials

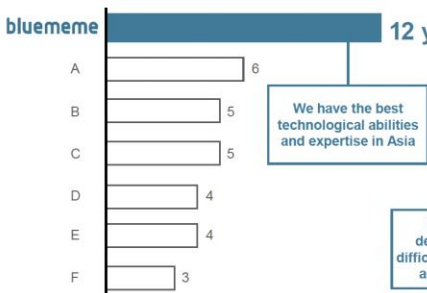
The Company's competitive advantage

Business Features and Advantages bluememe

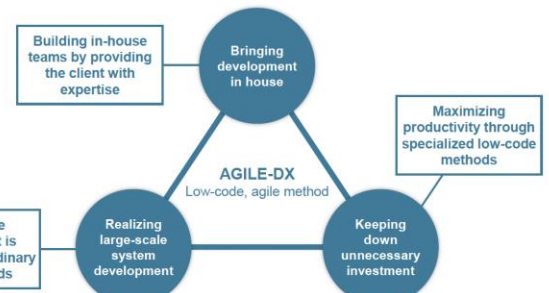
Barriers to Entry in the Low-Code Market

- BlueMeme was the first to introduce OutSystems' low-code technologies in Japan and is a leader in the low-code market for large-scale systems.
- Low-code, agile development methods enable large-scale system development, which is difficult with ordinary agile methods, and bringing development in-house.

Performance of official OutSystems sales agents in Japan



BlueMeme's proprietary low-code, agile development methods



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Source: Company materials

Quarterly topics

What is Digital Labor ?

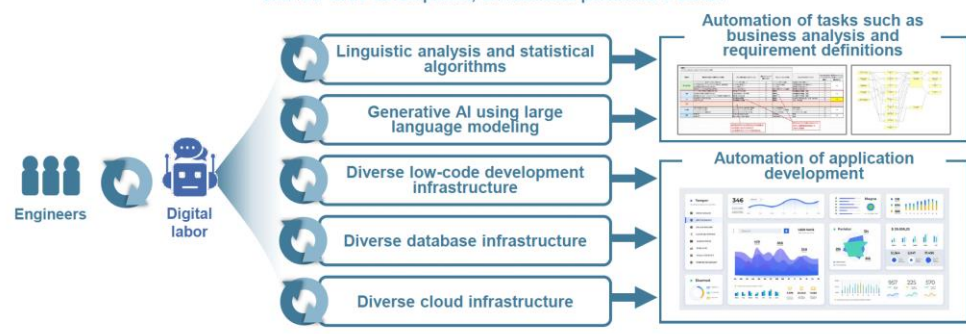
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Appendix

Digital labor is an intermediary between technical personnel and technologies of AI and low-code development

- BlueMeme's digital labor is intended to enable technical personnel to use technologies of AI and low-code development efficiently.
- It aims for more productive system development while reducing learning costs, so that technical personnel can get the most from technologies of AI and low-code development efficiently.

Digital labor supports system development using various technologies of generative AI and low-code development, on technical personnel's behalf



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Source: Company materials

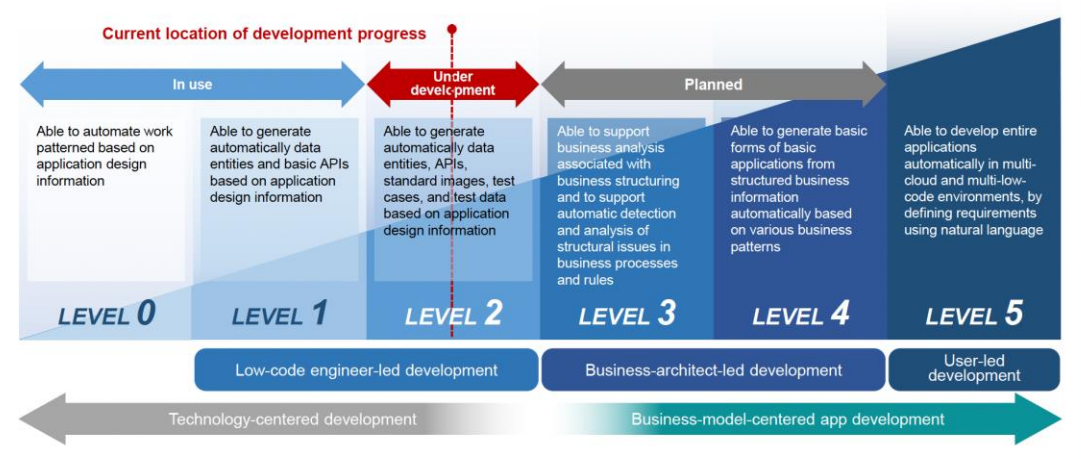
Stages in the development of Digital Labor

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Appendix

Stages of digital labor development

Current location of development progress



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Source: Company materials

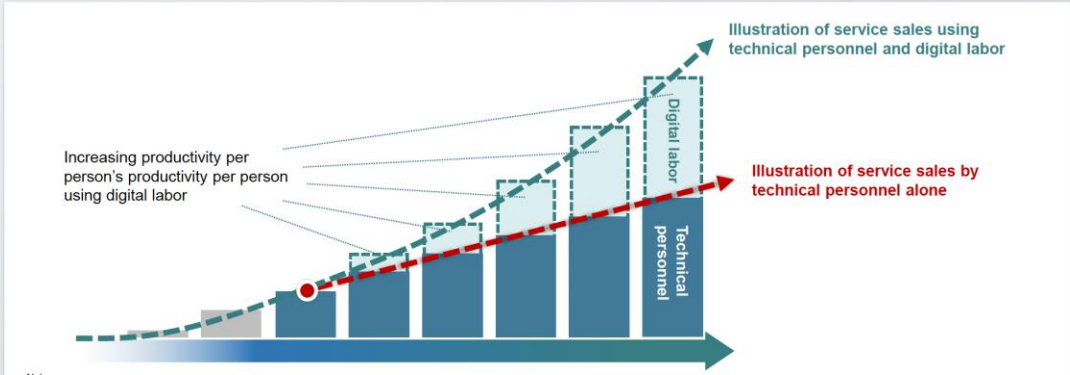
Quarterly topics

Digital Labor and the Company's productivity improvement prospects

Appendix bluememe

Ability to use digital labor to reduce the HR requirements for growing sales

- Growth in development service sales requires increasing numbers of technical personnel and growing their productivity per person.
- Digital labor can grow sales by increasing productivity per person's productivity per person.



Notes:
Business growth rates estimate differences in rates of growth from use of technologies such as digital labor and AI compared to previous forecasts. At a minimum, the domestic low-code/no-code development market is expected to grow at least ninefold by 2030.

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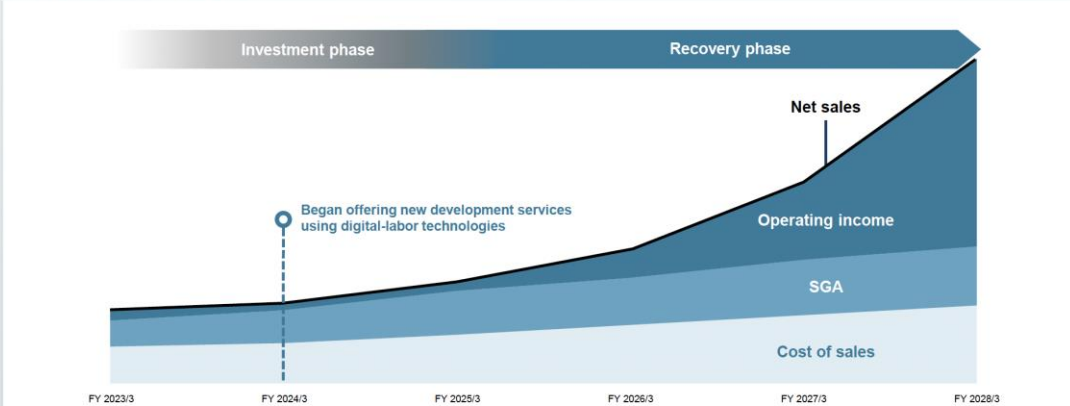
Source: Company materials

Digital Labor and the Company's revenue structure outlook

Business Features and Advantages bluememe

Illustration of Revenue Structure

- We still are in the investment phase, promoting development of digital-labor technologies capable of further reducing the number of engineers needed for system development.
- In the recovery phase, we will leverage digital labor technologies to keep down cost increases while growing sales through increased indirect sales via partnerships.



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Source: Company materials

Financial data (quarterly basis)

Unit: million yen	2023/3				2024/3				2025/3
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
(Income Statement)									
Sales	517	586	551	634	614	595	593	705	517
Year-on-year	23.4%	25.5%	0.4%	25.2%	18.6%	1.4%	7.6%	11.1%	-15.8%
Cost of Goods Sold (COGS)	253	285	290	301	297	302	308	334	267
Gross Income	264	301	261	334	316	292	286	371	250
Gross Income Margin	51.1%	51.4%	47.4%	52.6%	51.5%	49.2%	48.1%	52.7%	48.4%
SG&A Expense	203	194	206	198	236	256	252	266	292
EBIT (Operating Income)	61	107	55	135	80	37	33	105	-42
Year-on-year	-8.0%	6.1%	-62.2%	115.6%	31.9%	-65.6%	-39.3%	-22.1%	-151.9%
Operating Income Margin	11.8%	18.3%	10.0%	21.4%	13.1%	6.2%	5.6%	15.0%	-8.1%
EBITDA	66	112	60	141	84	41	38	112	-36
Pretax Income	56	105	58	123	79	36	32	106	-47
Consolidated Net Income	37	71	38	115	45	13	20	97	-50
Minority Interest	0	0	0	0	0	0	0	0	0
Net Income ATOP	37	71	38	115	45	13	20	97	-50
Year-on-year	-1.6%	5.1%	-62.0%	106.2%	23.9%	-81.7%	-47.2%	-15.8%	-209.5%
Net Income Margin	7.1%	12.0%	6.8%	18.1%	7.4%	2.2%	3.4%	13.7%	-9.6%
(Balance Sheet)									
Cash & Short-Term Investments	2,267	2,392	2,377	2,225	2,194	2,191	2,070	2,229	2,047
Total assets	3,253	3,383	3,348	3,556	3,440	3,366	3,294	3,734	3,297
Total Debt	94	69	45	5	23	27	22	5	NA
Net Debt	-2,173	-2,323	-2,332	-2,220	-2,171	-2,164	-2,048	-2,223	NA
Total liabilities	809	866	792	896	847	825	735	1,125	734
Total Shareholders' Equity	2,444	2,516	2,556	2,660	2,594	2,541	2,559	2,609	2,563
(Profitability %)									
ROA	8.83	8.19	6.06	7.52	8.02	6.25	5.81	4.80	2.37
ROE	12.09	11.02	8.19	10.27	10.66	8.33	7.55	6.64	3.10
(Per-share) Unit: JPY									
EPS	10.5	20.2	10.7	32.4	12.9	3.7	5.8	28.3	-14.5
BPS	699.1	717.2	725.2	750.5	745.6	736.3	741.6	762.9	747.3
Dividend per Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares Outstanding (Million Shares)	3.49	3.51	3.52	3.55	3.56	3.56	3.56	3.56	3.58

Source: Omega Investment from company materials

Financial data (full-year basis)

Unit: million yen	2020/3	2021/3	2022/3	2023/3	2024/3
(Income Statement)					
Sales	1,800	2,102	1,942	2,289	2,507
Year-on-year	20.3%	16.8%	-7.6%	17.9%	9.5%
Cost of Goods Sold	1,276	1,411	878	1,129	1,241
Gross Income	525	691	1,064	1,160	1,266
Gross Income Margin	29.1%	32.9%	54.8%	50.7%	50.5%
SG&A Expense	493	516	689	802	1,010
EBIT (Operating Income)	32	175	375	358	256
Year-on-year	-63.2%	448.8%	114.0%	-4.5%	-28.5%
Operating Income Margin	1.8%	8.3%	19.3%	15.6%	10.2%
EBITDA	47	193	395	378	274
Pretax Income	31	174	355	343	252
Consolidated Net Income	11	130	259	260	175
Minority Interest	0	0	0	0	0
Net Income ATOP	11	130	259	260	175
Year-on-year	-82.7%	1133.6%	98.9%	0.3%	-32.7%
Net Income Margin	0.6%	6.2%	13.3%	11.3%	7.0%
(Balance Sheet)					
Cash & Short-Term Investments	584	645	2,356	2,225	2,229
Total assets	1,273	1,395	3,351	3,556	3,734
Total Debt	347	212	101	5	5
Net Debt	-237	-433	-2,256	-2,220	-2,223
Total liabilities	914	871	953	896	1,125
Total Shareholders' Equity	359	524	2,398	2,660	2,609
(Cash Flow)					
Net Operating Cash Flow	175	183	338	95	252
Capital Expenditure	9	21	9	4	69
Net Investing Cash Flow	-13	-21	-10	-47	-107
Net Financing Cash Flow	60	-100	1,382	-179	-142
Free Cash Flow	173	180	330	91	184
(Profitability %)					
ROA	0.92	9.76	10.92	7.52	4.80
ROE	2.99	29.51	17.73	10.27	6.64
Net Profit Margin	0.59	6.20	13.34	11.34	6.98
Asset Turnover	1.57	1.58	0.82	0.66	0.69
Financial Leverage	3.24	3.02	1.62	1.37	1.38
(Per-share) Unit: JPY					
EPS	3.3	40.7	80.3	74.0	50.5
BPS	112.1	163.7	701.4	750.5	762.9
Dividend per Share	0.00	0.00	0.00	0.00	0.00
Shares Outstanding (Million Shares)	3.20	3.20	3.41	3.52	3.56

Source: Omega Investment from company materials



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